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MUNICIPAL FINANCE

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When the Constitution of Canada was set up by the British North America Act of 1867 even the most forward looking statesmen could hardly have anticipated the complicated functions of Government which were to develop over the years.

Almost the total population of Canada was rural. It was an age of individual self sufficiency supplemented by mutual assistance of neighbor to neighbor. The Fathers of Confederation found this good and saw in this pioneer spirit the future greatness of Canada.

National defence, regulation of international trade, a criminal code, the opening up of the west - these were the concern of Government and these could best be handled at federal level. Little was left even for the Provincial Governments. A member of the Legislature for Prince Edward Island sizing up the situation stated "in this House scarcely anything should be left for us to do but legislate dog taxes and the running at large of swine."


The worry was to prevent a government of so little field of responsibility from becoming unduly costly in administration. To quote Galt in his Sherbrook address,

"Every effort has been made to reduce the cost of local governments, so that local machinery should be as little costly as possible for it would not do to affront the intelligence of the people and tell them we had devised an expensive kind of machinery to do a very insignificant amount of work,"

With such a conception of the role of provincial and municipal governments it is little wonder that the Federal Government reserved to itself a perfectly free hand in revenue raising by any means of taxation, direct or indirect while it specifically limited the rights of the provincial governments and their creatures, the municipal governments to direct taxation and certain privileges of licensing.

Certain significant trends were soon after to be observed. By 1891 a third of the population was living in urban areas and it was already evident that the local governments must assume new and ever increasing responsibilities little dreamed of by the Fathers of Confederation. The next





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half century was to see a continued concentration of urban population with a corresponding decrease in rural population. This trend has continued until in Alberta today there are less than one-third of the people engaged in agricultural pursuits, while in the U.S.A. the rural population is reported to be less than 10% of the total.

Year after year there is a growing practice of operating every kind of farm from a town or city. Rural life as we have known it in the past is to be experienced only in remote and pioneer areas.

New standards of living have accompanied the development of our machine age. Our food habits, our clothing habits, our travel habits, our home lighting and home heating habits, our social and amusement habits, our educational patterns, - every phase of our lives has shifted with the growth of high income - high cost economy.

No longer can our farmers do with little cash supplemented by home grown produce, hand made apparel, woodlot fuel and country school amusement. No longer do our young people accept one standard of living for rural dwellers and another for those who live in urban centres. No longer will young couples start out with tiny dwellings and meagre furnishings accompanied by meagre and rustic facilities.

We all take for granted that some uniformity in social security and standard of living is both possible and desirable. To make it so we have accepted the philosophy that our governments should provide more and more and the individual less and less and somehow this philosophy has come to embrace a conviction that governments have some magic source of revenue to cover ever increasing costs of ever increasing services.

It is at the municipal level that the strain of such false premises has been most keenly felt. Since the province can and does tell the municipalities what they must do in certain fields the municipalities do not have complete control of the cost-revenue balance.

Provinces have more accurately defined their own responsibilities than they have those of the municipalities. Consequently the municipalities find themselves with residual responsibilities. When individuals are faced with a need which is beyond the individual capacity to supply, the municipal government is approached. It may resist for a while but as the







particular need spreads to a group then the local government feels compelled to accede.

In the struggle to make ends meet municipalities have been highly imaginative in devising taxes. The list following does not cover the whole field but is indicative of the extremes to which collectors have been driven by constantly increasing demands of citizens.

#### Property Taxes

- (a) Real property
- (b) Personal property
- (c) Frontage Tax
- (d) Stock in Trade Tax
- (e) Animal and Vehicle taxes
- (f) Tenant's Tax
- (g) Multiple Entrance Tax

#### Business Taxes

- (a) Ad valorem Tax
- (b) Specific business taxes  
e.g. floor space
- (c) Advertising taxes

#### General Sales Taxes

#### Income Tax

#### Commodity Taxes

- (a) Coal
- (b) Tobacco
- (c) Gasoline
- (d) Electricity & Gas

#### Transaction Taxes

- (a) Franchise taxes
- (b) Insurance premium taxes
- (c) Mortgage taxes
- (d) Telephone Toll taxes
- (e) Parimutual taxes
- (f) Slot Machine taxes

#### Poll Tax

#### Amusement Tax

Nor have municipalities been less imaginative in converting licenses and permits into revenue producers.

It is interesting to discover that some municipalities were collecting income taxes as early as 1831 and that Edmonton had such a tax from 1918 to 1920. The business tax was well established by 1890. Some municipalities in the United States are reported to have invoked as many as 17 distinct taxes. So far has this taxation business developed that it has become a profession and the Commissioner of Taxation has become the most important executive in many municipal governments.

Some of the more acceptable taxes can be evaluated later. For the moment let us turn our attention to two other municipal revenue sources.







First there are the various publicly owned utilities. By good management and carefully controlled rates many municipalities have been able to secure as much as 30% of their net revenue from utility profits.

The second is the provincial subsidy. The provinces generally have recognized the financial straits of the municipalities and have built up either voluntarily or under pressure very complicated systems of grants. But true to the old adage about he who pays the fiddler calling the tune certain controls have always attached to these grants and these controls have been irksome causing delays, reduced efficiency and often higher costs. Those grants which have called for matching sums from municipal revenues have been particularly offensive. They have forced unlimited spending, wasteful extravagance and, worst of all, a decay in democratic virility. The municipal governments have tended to become mere spending agents for the provinces and there is a rising threat of collapse of the whole relationship should provincial revenues suddenly cease to be buoyant.

Out of it all there has developed an urgent need for a new Provincial-Municipal Bill of Rights which will establish as definitely as possible which of the modern functions of government are to be municipal and which provincial and which will attach to each responsibility a revenue source in keeping with its relative importance.

In the sweeping changes which may be necessary nothing can be sacrosanct but unity of purpose to further the well being of our people. Those charged with the task must strive to resolve the difference of politics and local thinking. They must weather with dignity the storms which always accompany a break with tradition, the uprooting of long established personnel, the shifts in policy and system which rob some of long standing advantages to give to others relief from long standing disadvantages. They must indeed be diplomats and statesmen to accomplish major success in the task by bringing into full use all those techniques and procedures which are the characteristic machinery of democracy. So may it be !

In attempting to decide on a proper division of responsibility four questions confront us:-







- (1) Which responsibilities can be unequivocally assigned to the municipalities or the Province ?
- (2) Which must be shared and on what basis ?
- (3) What services can be properly standardized over the Province ?
- (4) How can provision be made for certain desirable differences in services in different municipalities ?

A partial list of responsibilities currently carried by one or both levels of government in only two fields will help point up questions (1) and (2).

### Roads and Streets

- (1) Construction and maintenance of:  
highways, roads, streets, bridges, culverts, ferries, sidewalks, curbs, boulevards, underpasses, overpasses, parking lots.
- (2) Servicing: snow removal, sanding, draining, line painting, signs, signals, policing, cleaning.
- (3) Regulating: speed zones, driving regulations, licensing, traffic bans, traffic courts.

### Education

- (1) Buildings, equipment and maintenance.
- (2) Pupil transportation.
- (3) Admissions, attendance and records.
- (4) Curricula and texts and teachers.
- (5) Intra mural and extra curricula activities.
- (6) Examinations and promotions.
- (7) Regulations and inspections.
- (8) Coordinations with University and other educational institutions;

- all these as they relate to kindergarten, elementary schools, secondary schools, commercial and technical schools, apprenticeship schools, schools for handicapped, schools for the gifted, public schools, private schools, correspondence schools, summer schools, colleges and University.







Question 3 may also be applied to education by way of example. Shall we establish as the minimum standard public school education and 4 years of high school for every pupil with everything at public expense ? Shall we establish a basic core curriculum with broader options provided only where enrolments justify specialized staff and facilities ? Shall we accept 25% of the costs of specialized schools and the University as a fair share to be borne by the public and require those who get the training to pay the balance of the cost ? Shall we make sure that there is equal opportunity for higher education by a government backed time payment plan for University education ? Shall we maintain bursary and scholarship grants to encourage further studies in fields where the need is great ? Is there some other formula more desirable than any of these ?

There must be agreement on certain province-wide standards in the various fields and such standards can only be established by answering these and other questions in education and similar questions in every other field.

Question 4 implies that there will be a desire on the part of some municipalities to provide service on a scale above the provincially accepted standard. Provision can be made for this by leaving some discretionary revenue source which can be easily applied within the municipal confines.

The next matter to be resolved is the re-allocation of revenue. Before anyone can go far in this direction there is a need for some discussion of revenue sources and for some clarification of the term re-allocation.

To begin with let us assume that most grants, as we have come to know them, will be discontinued with one exception, the equalization grant. Even this may be properly renamed.

Next let us assume that it is unwise to earmark any particular revenue for any particular purpose for the earmarking system has never proven entirely satisfactory.

There is one source of revenue which comes in a never determinable degree from the depletion of our provincial heritage of natural resources. To agree in the beginning that revenue from this source should be handled by the Provincial Government in such a way as to establish new capital







assets for all Albertans or to give a direct benefit to individual citizens would be an acceptable first step in our project.

Can we agree next that all other sources of revenue are PROVINCIAL-MUNICIPAL REVENUES and must be apportioned without strings between province and municipalities in accordance with recognized needs attached to responsibilities assigned to and accepted by each ?

What are these PROVINCIAL-MUNICIPAL REVENUES ?

- (1) Federal subsidies and payments under our various agreements.
- (2) Profits from province-wide trading activities, e.g. liquor profits.
- (3) Fines, fees, licenses, service charges on province-wide basis.
- (4) Province wide taxes which may be levied on behalf of the province and the municipalities.

The first three revenue fields can be predicted with some accuracy and can, no doubt, be divided with some equity.

Whatever funds are needed beyond these must come from taxes - taxes which can be high or low as our demands for government services are high or low - taxes which will encourage or discourage growth and development -- taxes which will influence the security and insecurity, the content and discontent of our people.

So we must evaluate taxes. To the extent to which we can settle on a limited number of taxation fields which can be accepted as fair and practical - to that extent will we deserve credit and confidence.

Upon what basis shall we judge ? The following rating scale may serve for a beginning.

- (1) Net yield - No tax which does not yield some considerable revenue is worth consideration.







- (2) Fairness of distribution - No tax which fails to call on a broad majority of the people is a good tax.
- (3) Simplicity of application - Unless the ordinary taxpayer can understand how his tax is levied it is not a good tax.
- (4) Collectability - The levy must be readily enforceable.
- (5) Relation to ability to pay - It is an accepted feature of democracy that those best able to pay shall pay most.
- (6) Relation between those who pay the tax and those who get the service. Only when this relationship is realistic will democracy function well.
- (7) Freedom from possibility of abuse - Any tax which lends itself to manipulation is abusive and unacceptable.
- (8) Freedom from duplicating and regressive tendencies - No levy should be such that it is paid by two people, e.g. levy on owner and again on tenant, nor should it be such that it can be easily passed on for the original taxpayer to recover from a second party. Neither should it be such as to curb progressive development.

An analysis of the tax list submitted earlier based on the rating scale just discussed will quickly show up the desirability of some and the undesirability of others. Students and taxing authorities will not give identical ratings but there will be a pattern which can be used for our purpose.

To evaluate each one in all its variations would require a volume. The discussions which must take place before our purpose can be accomplished will deal with most of these.

To start us on some analytical thinking we may consider the few which are usually considered to rate highest.







The treatment which follows has no claim to being complete or conclusive.

### Real Property Tax:

The real property tax has for long been the most generally used tax. Collectability is good since the property can hardly be removed from the jurisdiction of the taxing authority even though ownership may change.

Until recently the fairness of the property tax has been little questioned since most government services were quite equitably related to the property and its occupant. If the occupant happened to be a renter it has been conceded, usually, that he has been taxed through rents.

No elector has ever seriously suggested total unacceptability of the real property tax.

The net yield has been rather predictable and collection costs relatively low.

The amount of real property a man owns once accepted as a good index of his wealth and therefore of his ability to pay is not to be entirely so regarded today.

The tax has never been free from the possibility of abuse, particularly abuse related to assessments.

Outside of the assessment factor it has been a simple and functional tax.

We must conclude that there is little argument for abandoning this tax field. There is nevertheless plenty of argument for limiting the contribution which this tax should make to the public treasury. As indicated earlier a changing way of life has left the property owner paying through real property taxes a great deal more of the total costs of government than the services he receives can ever warrant.

Some of the questions to be answered with respect to real property taxation are worth brief discussion.

First: What portion of the costs of modern municipal services may properly be charged to real property







without imposing an unfair burden on the property owner ?

Most of those who have ventured answers to this question agree that real property may fairly be charged with the costs of facilities which add either income potential or capital value to the property and with the costs of such services as accrue to the owner or occupant of real property particularly.

The suggested list includes:

- (1) Capital cost of schools, hospitals, town halls, civic buildings, parks, museums, sewer and water works, fire halls and equipment.
- (2) The major part of capital costs of sidewalks, roads and streets of standards suitable to give minimum service to the occupant.
- (3) Part of the operating costs of fire department, city sanitation service, policing, street maintenance, and civic administration.

Second: Shall real property tax levies on large office, mercantile, distributing, warehouse, and industrial properties designed to serve very widespread areas of the province accrue to the advantage of only that municipality in which they are located ?

Tradition has established a pattern whereby tax revenue from such real property in the Province of Alberta has all belonged to the municipality within which the property is situated. The municipalities concerned have usually claimed that the costs occasioned by such plants and the personnel connected with them justify their claim to all the real property tax revenue.

Those who attempt to be objective about this question point out that originally the provinces all imposed real property taxes in addition to the municipal levy.

They call attention to the fact that existence of such large properties is only partly supported by the people of the surrounding municipality and that in our time of modern highways and quick transportation these properties are supported by people from far removed locations.







Moreover, it is argued that if real property tax is to apply only as indicated in the discussion of question (1) then certainly a large part of the real property levy on these business properties does not rightfully belong to the municipalities within which they are located.

Third: If then, the local municipality is not to get the whole of the real property levy on industrial property what portion shall it get ?

Two systems for determining this ratio may be suggested,-

(1) The local municipality shall get all the revenue upon assessment up to \$200,000 per acre. (This figure represents seven residential properties per acre assessed at approximately \$30,000 each - the figure is, perhaps, too high).

(2) The local municipality shall get all the revenue levied on a commercial property assessed at \$100,000 or less, 80% from \$101,000 to \$150,000 and so on to a minimum of 25% of assessments in excess of \$250,000.

Fourth: How shall the rest of the real property tax revenue be distributed ?

The usual conclusion is that it should be distributed according to an equalization formula which will include per capita assessment and per capita costs of standardized capital expenditures for necessary hospitals, schools, etc. as outlined under question (1).

Fifth: Can assessment be so equalized as to make such a system fair ? The answer is usually "Yes, within a 5% tolerance." There is room for difference of opinion.

Sixth: Can there be a uniform mill rate on such commercial and industrial property ? The answer is "Yes, a uniform mill rate is highly desirable." Again the case may be argued.

Seventh: If real property is to bear certain costs should any real property be exempt from taxation ?

Those who reply from a purely objective point of view believe that NO real property should be exempt. It is argued that property of equal value occasions almost equal







capital service and that for purposes of uniformity of practice and procedure all should be taxed, including government property at all levels, church property, property of charitable institutions, farm buildings, - all real property !

They point out that in many instances these properties are in valuable locations and keep out industrial and commercial structures which would have found these locations desirable.

They suggest offsetting grants, within certain limits, from the municipalities to churches and charitable and social service institutions. The system of offsetting grants has not usually worked well at local level. It may be all right administered by a provincial committee set up for the purpose.

They propose that provincial and federal properties should be treated as commercial industrial properties for tax revenue distribution purposes.

That the matter of exemptions must be settled is certain. The basis of settlement is bound to be controversial, but must be established.

### Personal Property Tax

An evaluation of the personal property tax leads one to doubt whether it should be retained.

It is not readily collectible since the property can be moved and since there is no positive way to identify many items of personal property.

It is not a fairly distributed tax since it applies only to people who invest in personal property; people who invest in bonds, stocks or shares are not touched. Moreover, many personal property owners are able to manipulate to avoid the tax. It is subject to much abuse.

It is most unacceptable to electors who find themselves subject to it.

It is the type of tax which should be generally applied or completely abolished.

Business taxes are many and varied. When the taxes are related to some specific government service to business they rate well except that they may have little





relationship to ability to pay since, as generally computed, they bear no relationship to the profit or loss of the business being taxed.

Transaction taxes include such as mortgage taxes, taxes on insurance premiums and property transfers. Such taxes are usually imposed only because of net yield and simplicity of application and collection.

Poll taxes are accepted as a means of collecting from those who pay no real property taxes or any of the usual municipal and educational taxes. The tax varies from two or three dollars to as high as twenty-five dollars in the Maritimes. When the rate is high it can show a considerable net yield. The usual practice is to make the employer responsible for collections. The fairness of the tax is not usually questioned. It bears no relation to ability to pay except that the employer cannot withhold it unless the person assessed has actual earnings. The tax is seldom out of line with the services received by the person taxed or his fair share of the public tax revenue. It is not entirely free from abuses but is relatively simple in application. As real property tax becomes a lesser portion of the total tax revenue poll tax becomes less desirable.

Income tax is accepted today as one of the best. It has much to recommend it. It produces a high return. It lends itself to fair distribution. It is collectible to a high degree. It is closely related to ability to pay through adjustment of basic exemptions and progressive rates on higher incomes. It is a direct tax which keeps the taxpayer aware of his contribution to government revenue and hence critical of government spending.

The critics of income tax point out that it calls for a large and costly assessment and enforcement staff. It has too many complexities to be attractive to individual municipalities. The detailed accounting which it involves is frustrating to small business operators.

It is admirably suited for a joint taxation plan. Once uniform regulations are accepted each level of government can levy a rate. The total tax can be assessed and collected by the senior government which can retain an agreed collection charge and return the appropriate share to the municipalities.





Certainly income taxes are here to stay and must figure in any revenue allocations.

Sales Tax - The controversy over sales tax is a never ending one. The tax is labelled regressive and condemned because it is burdensome, particularly on those with low incomes and large families. Its calculation, recording, collection and remission becomes costly and annoying to business men and customers. It is difficult to apply to small purchases. It can result in unfair price competition between communities just inside and just outside the area of application. It is hard to collect on mail order purchases. It discourages purchases by raising prices.

On the other hand it has much to recommend it. It can largely take the place of commodity taxes. Governments which have used sales taxes for a long time regard it as highly collectible with low collection costs. Most of them have adopted rates to be retained by the retailer as collection fees. It is a tax which no one who buys can escape. Applied to our free spending society those who are best able pay most. The Indian, the transient, the tourist all contribute.

It is a pay as you go tax which cannot accumulate to face one suddenly as arrears for which proper provision has been neglected. It assures to a municipality a considerable revenue with which to provide the services which new industries occasion by bringing quick increases in population before real assets are on the tax rolls. In so doing it eliminates the necessity of taxing the real and personal assets of the new industry to an extent which may contribute materially to its inability to meet competition of businesses paying lower rates elsewhere.

The regressive nature of sales taxes may be admitted but in its defence may be pointed out that the large family gets a relatively large share of the many services provided at public expense. Moreover, recompense is already provided in family allowances, income tax exemptions, increasing social services at public expense and in social security provided by various pension and assistance plans. Again, if sales tax is to provide some relief from real property taxes it does not seem unfair to make its application general and to apply it to all sales at consumer level with few if any exemptions.





In this connection it is interesting to note that 2% sales tax in the cities of Quebec and Montreal is equal to 10 mills on total assessment. Applied over the Province of Alberta the yield would be less but may be expected to be better than 3 mills for each 1% sales tax.

It has one other advantage. By common demand or common consent the rate can be quickly adjusted to meet changing circumstances.

In spite of its critics no taxing authority of which the writer is aware, once having established sales tax during the last ten years, has found sufficient reason to repeal it. It is worth careful study in relation to our present purpose.

A few other comments about taxes may be pertinent.

Certain forms of taxation are fair-weather friends. In boom times their yield is high enough to encourage unwise spending on the part of governments. In times of restricted economy the revenue falls sharply and suddenly to almost nil. To this class belong duties and customs, income taxes and such sales taxes as luxury and amusement levies. At this point governments are in distress because of uncontrollable expenditures resulting from the optimism of the good times. Debenture and interest payments fall due, maintenance of elaborate buildings, civic centres, fine highways, high levels in education and social service impose impossible burdens. The temptation to raise rates often depresses business still further.

Other taxes lend themselves to steadier revenue return but are difficult to collect during business recessions. These include real and personal property taxes, poll taxes, business taxes and licenses. As long as this latter group is responsible for the greater part of capital expenditure and debt charges those committed for the taxes resist public extravagance and lend a steadying influence on public spending at all times.

When there is economic depression governments are particularly glad for low exemption levels in income tax and for no exemptions in the sales tax. Under these conditions the portion of sales tax revenue related to essential purchases of food, clothing and shelter is relatively high.

One other thing must be considered in any proposed shift from real and personal property taxes to other fields.





Monies paid as sales taxes are only exempt from income tax when they appear in costs of operation, e.g. repairs and replacements, fuel consumed in industry. Tax paid on personal purchases of consumable goods is not exempt.

For the provision of services beyond the broadly accepted standards a municipality must have discretionary revenue. The simplest way to provide for this seems to be to leave within the powers of the municipality some discretion in business tax, licensing, amusement tax and utility royalties.

The utility royalty may accrue as profit on municipally owned utilities or as a sales tax addition to utility bills, such tax to be collected by the company for the municipality.

There would still remain the system of assessing by agreement those who get the benefit of exceptional services, e.g. full cost tuition at Junior College level, library fees, fees for using municipal swimming pools, arenas, etc.

No community would be deprived of the right to provide special facilities by community effort and voluntary contributions.

In dividing responsibilities there may be a few guiding principles.

(1) There should not be attached to the municipalities any function in which uniformity of standard and administration leave no room for local discretion.

(2) Functions left to municipalities must be free from any but statutory controls.

(3) All services to real property except those associated with titles should be left with the municipalities.

(4) The Province must assume responsibility for equalization factors based on need and ability to pay.

(5) No government shall be pressed by any other government to provide any service or capital asset beyond those which can be provided by the revenue attached thereto.

(6) The Province must be left with power to impose a special rate in any tax field to cover any specific





purpose for the good of all; e.g. civil defence or disaster.

(7) The Province ought not to be called on to guarantee municipal borrowings except under the Alberta Municipal Financing Act.

We are already late in giving this whole matter our attention. How shall we direct our efforts ?

(1) We must decide together whether a re-allocation of responsibilities and revenues is desirable. If the answer is affirmative, -

- (a) We must anticipate the statistical information upon which our judgments should be based and start immediately on the research which will provide this information.
- (b) We must see that the people are informed of the pros and cons at each stage of the enterprise.
- (c) We must take a firm stand against vested interests where these are contrary to the ultimate common good.
- (d) We must embark on the task fully prepared to try, to evaluate, to adjust and to compromise but never to abandon our purpose.

E. W. Hinman,  
Provincial Treasurer.











